

**Europe's Effect:** Europe is a long ways away. It may seem like what happens there can't be of that much consequence to us in America. But, that's not true. Just as conflicts that ignited in Europe in the 20th century dragged us into two world wars, the effects of economic unrest on that continent will involve us, as well - whether we like it or not.

To coin a phrase, Europe is in economic deep doo-doo. They are suffering a huge crisis born of too much debt of which the causes and potential cures are far too complex for a meaningful analysis in this short format. Suffice it to say that Europeans have given themselves a lot of socialistic benefits without paying for them, instead choosing to borrow the money. The resulting union-dominated socialism has led to very little growth. Italy, for example, has had zero GDP growth in 10 years! Without GDP growth, you cannot grow wages, benefits, government, or social and environmental policy. But, they have tried to do all of that. Germany is the most prosperous country in Europe, but even their prosperity has not been pure. Note that 50% of all of Germany's products are exported; most to other European countries. The Euro has enabled weaker economies (Greece, Spain, Portugal, etc.) to purchase German goods with an artificially strong currency that they would not have had access to on their own. This has propped up the German economy beyond what it would have otherwise been.

But now, the economics of all this have hit a proverbial wall. From here, it is possible that the Euro will break up and each country will return to its old currencies. It is possible that some countries will leave the Euro. It is possible that the Germans and the French will bail out the weaker countries. And, there are any number of other scenarios. Although this is an economic problem, the solutions are necessarily political. For Germany to bail out Greece is akin to the United States establishing a TARP program for Mexican banks. Not an easy political lift. But, all the solutions are difficult politically. And, let's remember that these are separate nations with centuries of history that are hard to ignore or forget.

So, what does this all have to do with us? Europe is already in recession. Even if they get their act together, a recession experienced by our largest trading partner will reduce GDP growth in this country. So, their problems will be a drag on our economy even in the best case. But, if they fail to resolve their problems and one or more of their big banks fail in a disorganized manner, we could see a worldwide freezing of financial arteries similar to what caused the crash in 2008. Remember, that crash, which impacted every country, was triggered by the failure of a single American financial institution, Lehman Brothers. Now, before you jump out of the window, our financial institutions are much better prepared for this sort of thing than they were in 2008. And, we can see it coming this time, which was not the case then. But, the interconnectivity of the world's financial systems are such that a catastrophic failure in the world's second biggest economy will hit us, and the entire world, hard no matter how much we try to prepare.

I am concerned that the President is so preoccupied with running for reelection and scoring political points that we are not as prepared as we should be. This President has no idea how to run the country, but he is good at campaigning. And frankly, congressional leadership is all tied up trying to counter the President's continual campaigning. Therefore, I am working hard to make sure that the U.S. Treasury and the Federal Reserve, as well as congressional leadership, acutely understand the nature of the threat and prepare the US financial system against the possibility of failure in Europe. I am starting to engage with a lot of folks "in the trenches" and am making progress.

There is some good news here. Honest, there is.

We have problems in America. But, the rest of the world is in even worse shape. Europe's problems are clear. But, China recently cut their interest rates even though they have inflation because their growth is falling off. India and Brazil are struggling, as well. In fact, every other country on earth is hugely dependent on the actions of other countries - except the United States. We can create our own growth. We can cure our own fiscal problems. If we could get our fiscal and economic act together, capital, business and jobs would run here from all over the world. I began this tome talking about how European military conflicts drew us into becoming involved during the 20th century. As horrible as those conflicts were, America emerged from them stronger than before. We can do that again. We could begin a new era of growth and prosperity, propelled by our economic superiority rather than our military superiority.

But, we have to first fix our problems ourselves. Just as we built our own strong military, we need to build our own strong economy. Unlike Germany or any other European country, we do not need to rely on approval from some other parliament. We can balance our own budget. We can produce our own energy. We can run our own currency. We can innovate and build things better than anyone in the world. But, we need to stop trying to be more like Europe or China, as seems to be the President's plan, and be more like us. Whatever it takes, we must move our budget towards balance. We must firmly reject the debt and socialism that is taking Europe down, and we must unleash the power of our entrepreneurs. You'll hear more from me about some of this in the coming days. But, how about we begin by not extending "temporary" spending and stimulus programs, and instead start to actually make meaningful deficit reductions? And, do so right now?

America IS an exceptional nation. These are scary times. But, there is opportunity. Opportunity to show the world the way America does it. We must seize this moment.